

Message Text

CONFIDENTIAL

PAGE 01 ROME 01978 111627Z

53

ACTION EUR-08

INFO OCT-01 SS-14 ISO-00 NSC-05 NSCE-00 PM-03 L-01 SP-02

INR-05 CIAE-00 DODE-00 EB-03 TRSE-00 /042 W

----- 109808

R 111235Z FEB 75

FM AMEMBASSY ROME

TO SECSTATE WASHDC 9471

INFO AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY BERN

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY LONDON

AMEMBASSY LUXEMBOURG

AMEMBASSY PARIS

AMEMBASSY THE HAGUE

AMEMBASSY TOKYO

USMISSION OECD PARIS

USMISSION GENEVA

C O N F I D E N T I A L ROME 1978

LIMDIS

E.O. 11652: GDS

TAGS: ECON, EFIN, IT

SUBJECT: THE POLITICAL ECONOMY OF ITALY IN 1975

1. THE SHARP IMPACT ON ITALY IN THE FIRST HALF OF 1974 OF THE ENERGY CRISIS WHICH HIT AN ECONOMY ALREADY UNBALANCED BY INFLATION AND IN HEAVY BALANCE OF PAYMENTS DEFICIT, GAVE ITALY A WIDESPREAD REPUTATION AS THE MOST LIKELY CANDIDATE FOR ECONOMIC COLLAPSE, WITH THE UK SEEN AS THE NEXT IN LINE. I HAVE NEVER BELIEVED THAT THE PICTURE WAS AS BAD AS DEPICTED IN THE DOMESTIC AND FOREIGN PRESS, WHICH PICKED UP THE PROPHECIES OF DISASTER EMANATING FROM ALL SECTORS OF ITALIAN ECONOMIC LIFE, EACH OF WHICH FOR ITS OWN PURPOSES PUT THE WORST POSSIBLE CASE FORWARD. IT WAS SERIOUS, NOT CATASTROPHIC. I BELIEVE THE
CONFIDENTIAL

CONFIDENTIAL

PAGE 02 ROME 01978 111627Z

SHORT-TERM PROBLEMS WERE ALWAYS SUSCEPTIBLE TO SENSIBLE ECON-

OMIC MANAGEMENT.

2. I WASH TO DRAW TO WASHINGTON'S ATTENTION THE RAPID IMPROVEMENT IN ITALY'S FINANCIAL POSITION WHICH HAS TAKEN PLACE IN A RELATIVELY SHORT TIME SINCE THE RUMOR GOVERNMENT'S STABILIZATION PROGRAM LAST SUMMER. THE PUBLICATION OF YEAR-END FIGURES WHICH HAVE BEEN REPORTED SEPARATELY GIVE CONVINCING EVIDENCE THAT ITALY'S CRITICAL BALANCE OF PAYMENTS AND PRICE INFLATION PROBLEMS ARE NOW IN THE PROCESS OF BEING TURNED AROUND.

3. THE SITUATION IS NOT WITHOUT PARADOX. 1974 WAS A YEAR OF FOREBODING AND PESSIMISM. THE UNDERLYING ECONOMIC SITUATION AT MID-YEAR APPEARED ALMOST OUT OF CONTROL. A SHARP ECONOMIC DOWNTURN ACCOMPANIED BY A RISE IN UNEMPLOYMENT TO THE PSYCHOLOGICALLY FEARSOME "ONE MILLION UNEMPLOYED" LEVEL WAS WIDELY BELIEVED TO BE UNDERWAY. IN FACT LEVELS OF INCOME AND EMPLOYMENT WERE AT ALL-TIME HIGHS.

4. THE YEAR-END INDICATORS DEMONSTRATE THAT THE FINANCIAL TURNAROUND IN THE ECONOMY IS TAKING PLACE RAPIDLY. HOWEVER, THE COUNTERPART TO THIS IMPROVEMENT IS THE INDUSTRIAL PRODUCTION IS UP BUT ONLY MODERATELY -- IN PART BECAUSE OF THE LAG WHICH HISTORICALLY OCCURS BETWEEN DECREASES IN PRODUCTION AND THE CONSEQUENT UNEMPLOYMENT. THE DELAYED ARRIVAL OF THE RECESSION IS BEING GREETED ALMOST WITH RELIEF. IT WAS A LONG TIME COMING AND THE REALITY SEEMS LESS PAINFUL THAN THE APPREHENSION WHICH PRECEDED IT.

5. THE NON-OIL DEFICIT HAS DISAPPEARED, THE INFLATION RATE IS DROPPING CONSISTENTLY, AND THERE HAS BEEN NO DRAMATIC DEPRECIATION OF THE LIRE. ITALIAN SOCIETY APPEARS ONCE AGAIN TO HAVE SHOWN ITS PROVERBIAL FLEXIBILITY IN ADAPTING TO AN UNHEARD OF RATE OF INFLATION WITH A RELATIVE EASE THAT NO OBSERVER WOULD HAVE PREDICTED A YEAR AGO. OF COURSE, WAGE RATE INCREASES, COST OF LIVING ADJUSTMENTS AND WAGE SUPPLEMENT PAYMENTS TO SHORT-TIME WORKERS HAVE PROTECTED PERSONAL INCOME RATHER WELL, AT LEAST FOR ORGANIZED LABOR.

6. NOTWITHSTANDING PREDICTIONS OF "ZERO" GROWTH AND FURTHER
CONFIDENTIAL

CONFIDENTIAL

PAGE 03 ROME 01978 111627Z

INCREASES IN UNEMPLOYMENT AND UNDEREMPLOYMENT, THE PESSIMISM OF 1974 IS BEING REPLACED BY A SENSE OF MODEST, GUARDED OPTIMISM FOR 1975. GOVERNMENT AND PRIVATE FORECASTS, ALTHOUGH DIFFERING IN DETAIL, FORESEE THE POSSIBILITIES OF A MODEST ECONOMIC UPTURN TOWARD THE END OF THE YEAR, PROVIDED THAT FOREIGN DEMAND DOES NOT TURN SHARPLY DOWN, ALTHOUGH A MAJOR UPTURN IS NOT EXPECTED UNTIL THE LATTER PART OF 1976. WITH A SURPLUS PROJECTED FOR THE NON-OIL CURRENT ACCOUNT, FINANCING

OF THE REMAINING PORTION OF THE 1975 DEFICIT LOOKS FEASIBLE:
THE GOI WILL BE ABLE TO ARGUE WITH SOME JUSTICE THAT IT HAS PUT
ITS HOUSE IN ORDER.

7. SEVERE ECONOMIC PROBLEMS DUE TO SLOW GROWTH AND RISING
UNEMPLOYMENT REMAIN AND THE IMPROVEMENT IN THE FOREIGN ACCOUNTS,
IN FACT, REFLECTS THIS. THE MORO GOVERNMENT HAS BEEN DOING WELL,
ALL THINGS CONSIDERED, BUT FACES A MOST DIFFICULT DILEMMA--TRADING
OFF ITS LIMITED FREEDOM OF FINANCIAL MANEUVER AMONG THE COM-
PETING CREDIT NEEDS OF THE ECONOMY--AS BETWEEN THE PRIVATE AND THE
PUBLIC SECTORS AND AMONG PRIORITY ECONOMIC SECTORS SUCH AS
ENERGY, AGRICULTURE, EXPORTS, AND SOUTHERN DEVELOPMENT. INFLATION
IS DECLERATING BUT REMAINS MUCH TOO HIGH.

8. IN SUMMARY, THE PICTURE IS MUCH IMPROVED OVER SIX MONTHS AGO,
BUT REMAINS MIXED, AND AFTER 1975 THE \$4.5 BILLION DEBT REPAYMENTS
BUNCHED IN 1976 CAST A SHADOW OVER THE PRESENT REVIVAL OF CONFIDENCE.
THE CURRENT RECESSION COMES ON TOP OF A LONG AND GRADUAL DETERIOR-
ATION IN CHRISTIAN DEMOCRATIC STRENGHT THE NET RESULT OF WHICH WILL
HAVE AN UNFORESEEABLE EFFECT ON THE ITALIAN POLITICAL
SYSTEM. WE CONTINUE TO SEE NO MERIT IN PREDICTIONS OF SERIOUS
ECONOMIC DISLOCATIONS IN 1975 NOR, GIVEN REASONABLE LUCK AND A
CONTINUATION OF SENSIBLE ECONOMIC MANAGEMENT, IN 1975 AS WELL--
ON THE VERY IMPORTANT BUT PLAUSIBLE ASSUMPTION THAT BETWEEN THE
FINANCING AVAILABLE, THE IMF, THE EC, THE OECD OIL FACILITY, AND
OTHERS INCLUDING OURSELVES, THE BALANCE OF PAYMENTS SITUATION
WILL NOT BECOME UNMANAGEABLE.

9. THE IMPLICATIONS OF THIS SITUATION ON US POLICY ARE THREE-
FOLD. (A) IN HINDSIGHT OUR POLICY OF PROVIDING MORAL SUPPORT
FOR THE RUMOR GOVERNMENT IN 1974 WAS CORRECT. WHILE US SUPPORT
WAS NOT A CRITICAL POSITIVE ELEMENT IN RUMOR'S ABILITY TO PUT
TOGETHER THE STABILIZATION PACKAGE, A NEGATIVE US POSITION WOULD
CONFIDENTIAL

CONFIDENTIAL

PAGE 04 ROME 01978 111627Z

HAVE MADE A VERY DIFFICULT EFFORT EVEN MORE EXCRUCIATING AND PER-
HAPS IMPOSSIBLE. (B) THE EMBASSY AND THE USG IN GENERAL SHOULD IN
PUBLIC AND IN PRIVATE GIVE THE GOI CREDIT FOR THE MEASURES IT HAS
TAKEN AND PROGRESS MADE, AND CONTINUE TO ADOPT AN ATTITUDE OF
REALISTIC OBJECTIVITY. IN 1974 THIS EFFORT MADE THE EMBASSY APPEAR
RELATIVELY OPTIMISTIC, A FACTOR WHICH NO DOUBT HELPED THE TIALIANS
IN THEIR DEALINGS WITH AMERICAN BANKERS, SOME OF WHOM APPROACHED
THE PANIC STAGE UNDER THE BARRAGE OF DOOMSDAY PREDICTIONS.
(C) MOST IMPORTANT, ECONOMIC COLLAPSE AND CONSEQUENT POLITICAL
UPHEAVAL SHOULD BE TREATED AS AN UNLIKELY, ALTHOUGH STILL NOT
IMPOSSIBLE, FORECAST IN EVALUATING ITALY'S ROLE AS A FRIEND AND
ALLY. VOLPE

CONFIDENTIAL

NNN

Message Attributes

Automatic Decaptioning: Z
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ECONOMIC CONDITIONS, FINANCIAL STABILITY, ANNUAL REPORTS, POLITICAL SUMMARIES
Control Number: n/a
Copy: SINGLE
Draft Date: 11 FEB 1975
Decaption Date: 28 MAY 2004
Decaption Note: 25 YEAR REVIEW
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: GolinoFR
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975ROME01978
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Film Number: D750049-0885
From: ROME
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t19750253/aaaabvvq.tel
Line Count: 166
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EUR
Original Classification: CONFIDENTIAL
Original Handling Restrictions: LIMDIS
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 4
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: LIMDIS
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: GolinoFR
Review Comment: n/a
Review Content Flags:
Review Date: 21 APR 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <21 APR 2003 by KelleyW0>; APPROVED <22 APR 2003 by GolinoFR>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
05 JUL 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: THE POLITICAL ECONOMY OF ITALY IN 1975
TAGS: ECON, EFIN, IT
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 05 JUL 2006